Strong January Job Growth, But 2025 Very Weak After Revisions

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Headlines

- **Payroll employment increased by a strong 130,000 in January from December, above expectations.**
- **There were large downward annual revisions to job growth in 2025, to an average of 15,000 per month, from almost 50,000 before the revisions.**
- **Average hourly earnings rose a strong 0.4% in January.**
- **Job growth softened substantially in 2025 but remains positive, and the unemployment rate is still low on a historical basis.**
- **The January jobs report does not change the outlook for monetary policy: PNC still expects no change in the fed funds rate in the first half of this year, with rate cuts in the second half of 2026.**
- **Market reaction was positive.**

Details

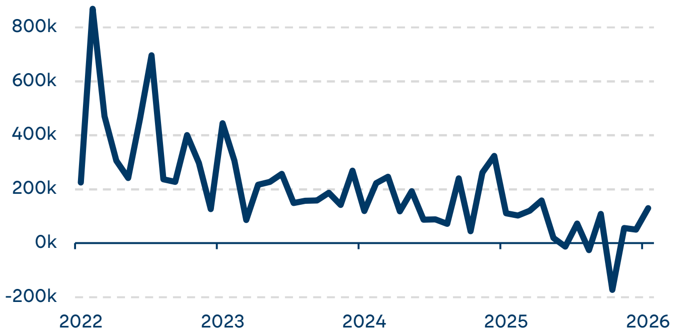
Employment in a survey of employers rose by 130,000 in January from December, according to the Bureau of Labor Statistics. The release of the January jobs report was delayed by a few days because of the brief government shutdown last week. This was above PNC's expectations for a gain of 75,000 and the consensus expectation of 70,000. The private sector added a good 172,000 jobs over the month, with government job losses of 42,000, mostly federal. **After revisions January job growth was the best since December 2024.**

This release also included annual benchmark revisions. The BLS updated employment in March 2025 to a more complete count based on unemployment insurance tax filings. **The level of employment in March 2025 was revised lower by almost 900,000, or 0.5%.** This is more than double the typical revision over the past 10 years.

With the revisions, job growth in 2025 was much lower than initially reported. Job gains over the year averaged 15,000 per month, down from 49,000 before the revisions. Excluding the pandemic in 2020, last year was the weakest for job growth since the economy was in recession in 2009.

Some of the weakness came from DOGE-related cuts in federal government employment in the fall of 2025; federal employment fell by almost 290,000 last year. **But private-sector job growth was also soft last year, with average monthly gains of just 31,000.** This is down from 85,000 in 2024 and 149,000 in 2023.

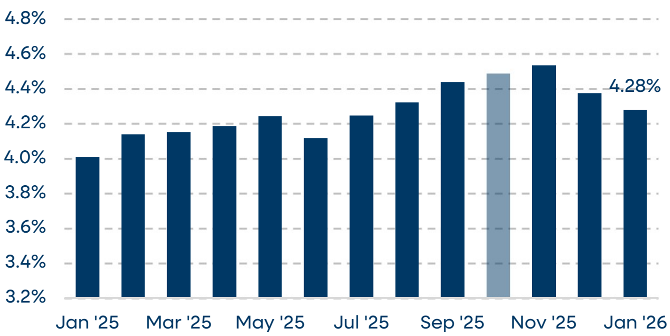
Figure 1: Nonfarm Payrolls (m/m)



Sources: BLS, PNC

The unemployment rate fell to 4.3% in January from 4.4% in December. After falling to decades-long low of 3.4% in early 2023 the unemployment rate has gradually increased, and has been at or above 4% since mid-2024. This is still low on a historical basis, but there is more slack in the labor market now than there was a few years ago.

Figure 2: Unemployment Rate (%)



Sources: BLS, PNC

Employment in a survey of households (different from the survey of employers) rose by 528,000 in January from December. The labor force—the number of people working or looking for work—rose by a smaller 387,000, leading to the decline in the unemployment rate. The labor force participation rate, which is the share of adults working or looking for work, rose slightly to 62.5% in January from 62.4% in December. The labor force participation rate was above 63% before the pandemic, then plunged to 60% in April 2020. It recovered to slightly below 63% in mid-2023 but has fallen somewhat since then. It has been between 62.2% and 62.6% since late 2024. An aging population and reduced immigration are putting downward pressure on the labor force participation rate.

The release of the January jobs report would normally include revisions to the household survey data based on new population estimates, but those were delayed due to the government shutdowns late last year and early this year.

The breadth of job growth remains a concern. Education and health services added 137,000 jobs over the month, while other private industries added just 35,000 jobs. Healthcare has accounted for all of job growth over the past year; private-sector industries outside of health care have reduced employment by more than 10,000 jobs per month on average over the last 12 months. The diffusion index, which indicates the breadth of job growth, rose to 55.0 in January from 54.7 in December; a reading of above 50 means more private-sector industries added net jobs than lost net jobs.

Employment rose in goods-producing industries by 36,000 in January from December, with gains of 33,000 in construction and 5,000 in manufacturing. **This was the first monthly gain in manufacturing employment since November 2024, and only the second increase since January 2024.** Private services-providing industries added 136,000 jobs over the month, with a small decline outside of healthcare. There were job losses in retail trade, utilities, information, and financial activities, but a solid increase of 34,000 in professional/business services.

The average workweek rose slightly to 34.3 hours from 34.2 hours in December. **Average hourly earnings increased 0.4% over the month, slightly ahead of the recent pace.** In January average hourly earnings were up 3.7% from a year earlier. Wage growth has been running slightly below 4% for the past year. This is down from 2022 and 2023 when the historically strong labor market was driving very strong wage gains, but up from the pre-pandemic pace of around 3.3%. **Solid wage growth is causing inflationary pressures from the labor market.**

With more jobs, a longer work week, and higher wages, total labor market income rose a very strong 0.8% in January. This should easily outpace monthly inflation of 0.2% (CPI to be released Friday, February 13).

The January jobs report was mixed. Job growth in January was the best in more than a year, and the unemployment rate fell slightly. But after the revisions job growth in 2025 was very soft, even taking out federal government job cuts. Some of the softness in the labor market is coming from reduced supply, with immigration restrictions and increased deportations making it difficult to find workers. But labor demand has also softened as tariffs and other policy uncertainties has led businesses to turn more cautious in hiring. In particular, employment has been falling in private industries outside of healthcare.

The January jobs report creates a headache for the Federal Open Market Committee. Job growth in 2025 was very soft, but it is unclear how much of this is from weaker labor demand versus labor supply. Fed funds rate cuts can boost labor demand but can do nothing about supply. In addition, January job growth was quite strong. By the time the FOMC next meets in mid-March they will have received the February jobs report, which may provide more clarity on the labor market. Another complicating factor is that Jerome Powell's term as Fed Chair expires in May. President Trump has nominated former Fed governor Kevin Warsh to the post. The President has not been shy about making known his preferences for fed funds rate cuts, and there will strong political pressure on the new Chair.

But with inflation still running slightly below 3%, above the committee's 2% objective, and little progress on slowing inflation in 2025, the FOMC is likely on hold in the near term. Strong job growth in January reduces some of the pressure on the committee to cut. PNC's baseline forecast is for the FOMC to stand pat in the near term, with the fed funds rate remaining in its current 3.50% to 3.75% range for the first half of the year. PNC is then forecasting two 25 basis point cuts in the fed funds rate in the second half of the year, at the FOMC's July and September meetings. This would take the rate to a range of 3.00% to 3.25% by the fall, with the rate remaining there into 2027.

With the release of the January jobs report **the fed funds futures market is now pricing in just a 6% probability of a fed funds rate cut at the FOMC's next meeting on March 18**, down from 20% yesterday. Market expectations for Fed loosening through the end of 2026 have eased slightly from yesterday.

Market reaction to the jobs report was positive, with the S&P 500 opening about 0.5% higher. The yield on the 3-month Treasury bill is up by about 2 basis points on reduced expectations for fed funds rate cuts, with the yield on the 10-year Treasury note up by 3 basis points. The dollar is up slightly against a basket of currencies. The price of a barrel of West Texas Intermediate crude oil is up by 2.6% this morning, to $65.60.

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